



Good morning. On behalf of Honeywell, I'm pleased to be here to discuss the market outlook for business aviation. And as one of the premier suppliers in that market, it's also a pleasure to be able to talk about an industry in extremely strong shape and with an upbeat outlook for the future.

Before I get into the specifics of the outlook, I'd like to briefly discuss the forecast itself. As many of you know, Honeywell's annual market outlook survey has become the gold standard for the industry and is eagerly anticipated when we release it at each year's National Business Aviation Association meeting in October.

OEMs, operators, the media, financial analysts--and yes, our competitors--rely on the survey as *the* measurement of the industry's prospects.

We've prepared the forecast for internal planning purposes for 14 years, and have released it publicly for last eight.

We contact more than 1,000 operators each year--primarily Chief Pilots, Flight Dept heads or Chiefs of Maintenance and corporate officers. The survey gives us a good snapshot of the near-term demand for new business aircraft around the world and this year the news continues to be very good, as it has been for the past 5 years.

**Current Business Aviation Environment**

- 1998 business jet deliveries - 510 aircraft worth \$6.97B
  - 15% increase in units
  - 20% increase in dollars
- 1999 business jet deliveries - 638 aircraft worth \$9.7B
  - 25% increase in units
  - 36% increase in dollars.
- Strong demand from the fractional ownership segment
- Up to 20 new product offerings
- Strong OEM order books

*New Purchase Expectations at Record Levels*

1999 came in as another record year for deliveries at nearly 9.7B and over 600 aircraft.

And the industry continues to exceed the pace set a year ago with deliveries up nearly 25% in units and 36% in dollars

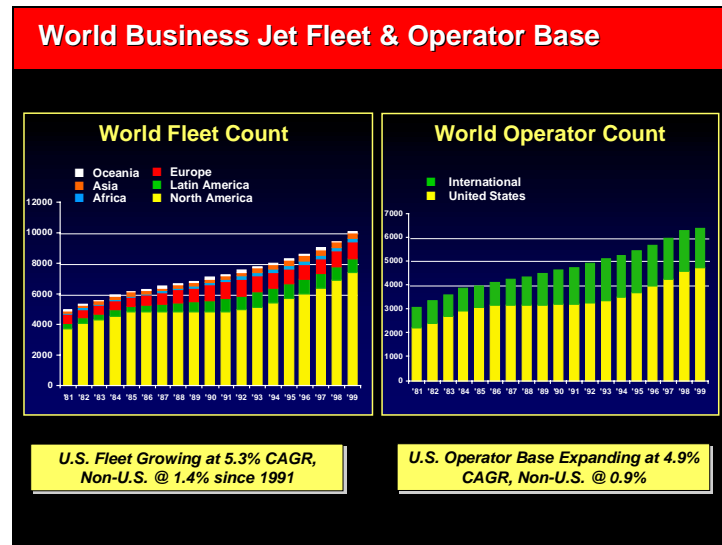
A major part of the high performance enjoyed by our business is driven by the fraction ownership phenomenon which continues to add significantly to overall business jet demand

\* (deliveries running 12-14% of industry total)

As we reported last year, there are still many new development programs and OEM backlog is still running as high or higher than a year ago (About 2 yrs of production capacity).

Finally, as we'll see shortly, the survey of new aircraft purchase expectations has risen again back into record territory.

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Currently the fleet is around 10,000 aircraft (10106) as you can see in the chart, nearly 7400 (7387) or about 75% are North American. Recent fleet growth is 5% (5.3%) in the US and just over 1% in the rest of the world (1.4%) - resulting in overall growth of about 4% (4.1%)

Virtually the same picture emerges when we look at world operator count with about 4700 of the nearly 6400 operators residing in North America. Growth patterns are nearly identical.

The important message here is that practically all the recent growth surge in fleet and operator counts has come from the US market.

**Growth Drivers**

- Continued Sustained Economic Growth in the US, and Improving Economies in Europe, Latin America and Asia
- Vigorous US Manufacturing Sector
- Robust New Product Development
- Aging Aircraft
- Deteriorating Airline Service
- Fractional Ownership

*Value and Productivity Gains From Business Aviation*

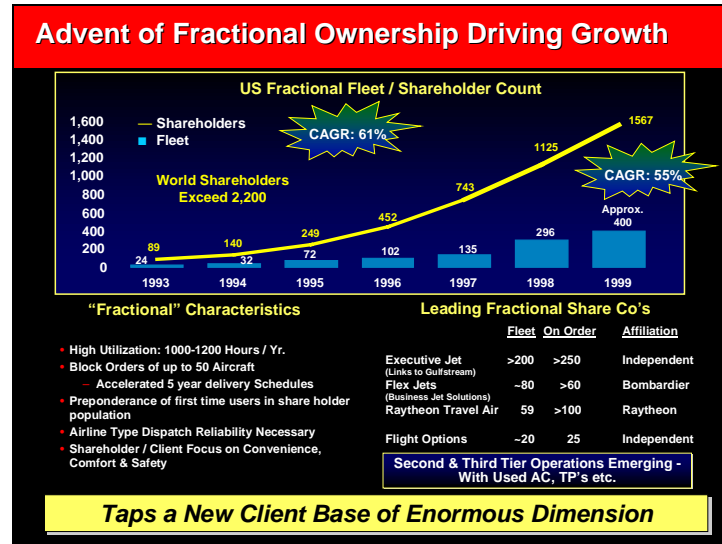
**What's pushing the industry to such heights of demand? Here are some of the key factors we believe are at the heart of the strong growth we're enjoying.**

**Despite some economic concerns over the last 2 years in Asia / Latin America, current evidence indicates the beginning of slow recovery in Asia (except Indonesia, Japan stagnant) and an improved outlook is also present in Latin America (Brazilian election over; Mexico financial markets stable)**

**Even more important since so many aircraft are purchased by US operators, is the continued strong performance of US manufacturing businesses**

**Other important contributing elements to the overall health of the market include the fractional business (already mentioned) and the crowded / strained commercial air transport system and the age of older elements of the business aircraft fleet.**

**Let's now take a look at the performance of the fractional segment**



This segment has continued the extraordinary growth rate experienced over the past few years in 1999.

Several major manufacturers report deliveries to the fractional ownership segment are accounting for 13-15% of their total sales of new aircraft.

This is clearly consistent with the figures at left when compared to total business jet deliveries of about 670 aircraft (including Business Liners)....and new orders continue to flow in as evidenced by the recently announced order of 6 more Falcon 2000's by EJA (total 60 on order)

The recent recommendations from the Fractional Ownership Advisory Rulemaking Committee (FOARC) set a moderate tone, and if adopted should not act as a constraint on further growth in this segment.

Independent surveys have also indicated that fractional ownership growth has had a neutral to positive impact on the FBO & Charter segments of the business. Some growth in aircraft charter use rates, sales and new aircraft demand have been attributed to the fractional business.

We are very excited about this business due to the fact that a high proportion of clients are first time business aircraft users (>70%). This exposes the benefits of business aviation to a much broader pool of customers - including expansion of operations beyond North America (Europe, Middle East) . This can only prove to be a source of additional growth in the future for full aircraft ownership.

Finally, we are also seeing the emergence a a new second tier of fractional operations utilizing used jet aircraft, turboprops and even helicopters - which continues to broaden the appeal and accessibility of business aircraft usage to an even wider group of potential customers

**Multiple Tools Used to Develop the Market Outlook Opportunities . . .**

- Honeywell Aerospace business forecast workshops
  - Outside expert involvement
- Honeywell value index and price demand model
- Statistical aircraft demand models
- Buyer expectation survey
  - Annual blind survey - 15 years
  - Test conceptual / development aircraft demand
- Aircraft manufacturer input
  - Production & Development Plans
- Voice of the Customer (VOC) surveys

**Balanced approach to forecasting**

**When we build our outlook we take a team approach to forecasting**

**First we form a consensus on market trends - outside consultants/experts are invited to participate for balance/alt. viewpoints**

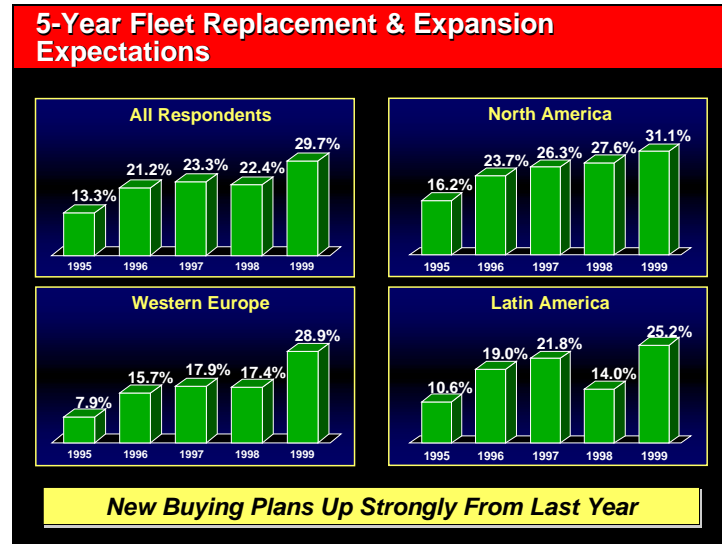
**We have developed a value index - (cabin (comfort) range, speed BFL - flexibility of performance) which is used to judge relative success of AC (variation in price also critical factor)**

**Econometric modeling sets the boundary of our forecast (topline a/c purchase limit)**

**The annual survey, which I'll get to next, provides an outside in cross check on the health of the market and provides detailed segment and geographic trends**

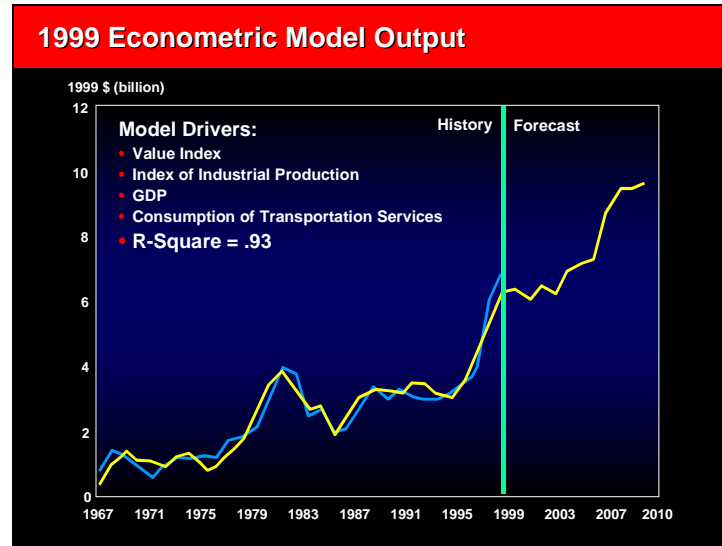
**And finally, direct customer and manufacturer input on marketing strategies / desired product attributes, production rates and new program development plans are factored in.**

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This year's survey results attained record levels - and the increase in purchase expectations is across-the-board in all regions we surveyed. As you can see from the chart, the current levels of purchase expectations improved sharply from the very small dip we reported a year ago, and are back in line with the trends we've been observing for the last few years. Though not shown, both components of demand (replacement and fleet expansion) were up in every region. This contrasts with 1998 in which all regions had increases in projected demand for fleet growth, but purchase plans for replacement were down (probably reflecting a bit of conservatism resulting from unsettled economic conditions around the world). Overall results are bolstered by strong optimism in North America with operators reporting consistent sales growth and expanded geographic markets with deteriorating airline service. Corporate aircraft are commonly viewed as an essential business tool. In Europe, generally improved economies were cited as a reason for higher purchase expectations along with changing regulations (noise) which favor newer aircraft.

(This chart measures the percentage of current fleets expected to be replaced or added to with new aircraft in the next five years.)



The foundation of AlliedSignal's long range forecast is an assessment of the "customer benefits" offered by the current and projected business aircraft. Customer benefits are modeled by a number of variables which measure aircraft capabilities.

Naturally, the more benefit or value offered for a given price the more attractive the aircraft becomes in the market.

We use the aircraft capabilities to construct a "value index" which is a weighted measure of the capabilities of all aircraft in production at a given time.

The value index, when combined with a few other economic variables, produces a solid statistical model of business jet demand.

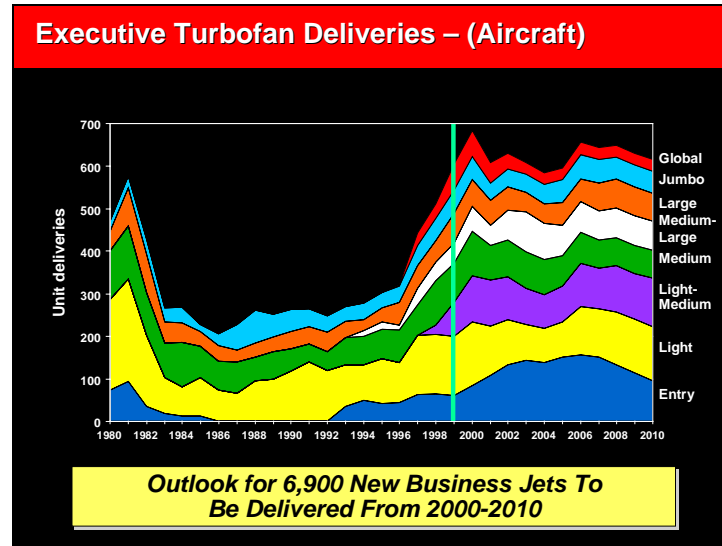
The statisticians tell me this is a pretty "tight fit."

The model also correlates to overall economic health. US GDP and industrial production are closely related to the manufacturing sector's performance - a traditionally strong source of business jet purchases.

Consumption of transportation services primarily measures alternate transportation demand (purchases of airline tickets).

Continued growth in our business is driven by a sound economic base (no recession or commodity shocks (oil)) and by numerous announced or developmental new aircraft programs.





And now what everyone has been waiting for - - -the long range aircraft outlook which projects 6900 (6939) deliveries over the next 11 years!

It is clear that substantial volume increases are projected for medium-large (super midsize), and entry, light and light-medium class aircraft - all of which have a number of new models announced or under study.

During the later part of the forecast period, the emergence of a new class of low cost turbofan entry level jets is projected - we see those aircraft based on technologies under development today at a cost that should provide an affordable jet alternative to the high end turboprop model.

Larger aircraft segments should remain more stable. Our segment breakdowns are as follows (period '00-'10):

Global & Jumbo - 911 aircraft

(369) (542)

Large- 680 aircraft

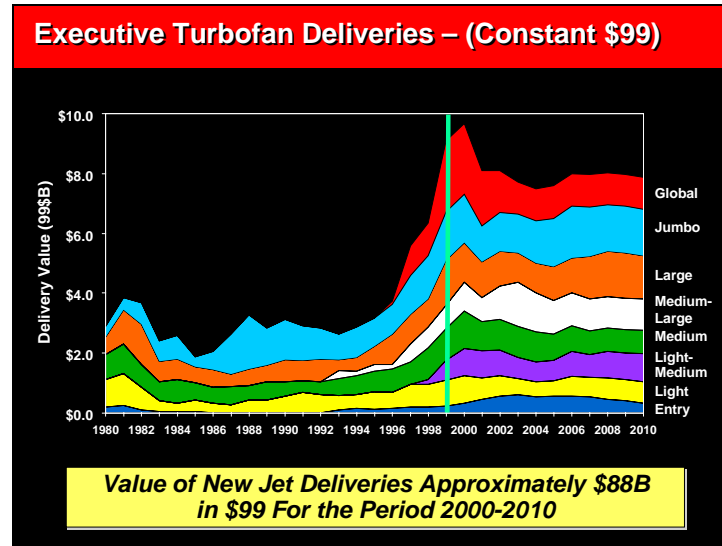
medium & medium large - 11626 aircraft

(854) (772)

Light & light medium - 2317 aircraft

(1225) (1092)

Entry - 1200 aircraft 6939



Here is the same forecast expressed in aircraft sales revenue (expressed in constant 99\$ aircraft sales).

Lets take a look at the value of aircraft deliveries . . .

We've collected input from the survey, value analysis and the statistical model as well as aircraft manufacturer input to generate this latest outlook which projects nearly \$88B worth of business jet deliveries over the next 11 years!

There is significant growth in the near term as the high new aircraft backlog is produced and delivered. Despite a decline post-2001, the demand never falls below '98 levels.

This is followed by a second wave of development programs entering service in the 2003-2007 period driving renewed growth.

(Note: no Boeing / Airbus / Dornier large business jets in the forecast - we forecast this in our air transport segment but do project about 170 aircraft worth \$7.6B over the next 10 years.)....31 delivered in 1999 worth \$1.4B

**Conclusion**

- North America is the engine driving growth in demand
- Deteriorating airline service and passenger frustration
- Business jet purchase expectations are at record levels
- Continuing new product development in Business & General Aviation segments
- Increasing customer value of new programs
- Fractional ownership extending the customer base

*Strong Environment for Sustained Growth*

**A great outlook for our industry again this year! But what are the keys to sustained growth?**

**Stable/growing economies, especially in the US and Europe**

**Favorable regulatory environments for business aircraft use**

**New products to stimulate market interest and provide additional value to customers**

**An expanded customer base - - - accessed by the fractional ownership business**

**A growing appreciation for the productivity and benefits business aviation offers in the global economy of the next millennium.**

**Thanks for your attention and now, let's take questions - - -**